

STATE OF MINNESOTA

SMALL BUSINESS FINANCE AGENCY

In the Matter of the Proposed Rules of
the Minnesota Small Business Finance
Agency Relating to Amendment of Existing
Rules of the Agency Regarding the Making
of Business Loans.

STATEMENT OF NEED
AND REASONABLENESS

The Minnesota Small Business Finance Agency ("Agency") presents herein its statement of the need for and reasonableness of its proposed rules relating to the amendment of its existing rules for the making of business loans. The above-captioned rules are amendments to existing rules. The Agency's existing rules were adopted by the Agency on April 22, 1981, and August 31, 1981.

The authority of the Agency to adopt these rules and the need for and reasonableness of the proposed rules are as follows:

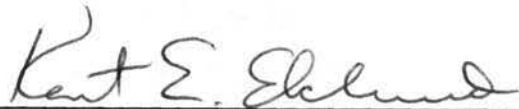
I. Authority of the Agency to Promulgate and Adopt Rules

Minn. Stat. § 362.53, subd. 4 (1980) empowers the Agency to adopt, amend and repeal rules not inconsistent with the provisions of Minn. Stat. §§ 362.132 and 362.50 to 362.53 as necessary to effectuate its corporate purposes.

II. Rules Amending the Agency's Existing Rules Regarding the Making of Business Loans

The Agency proposes to amend its existing rules regarding the making of Business Loans by deleting that provision of those rules which requires the Agency to determine that certain expenditures are ineligible for funding if the financing of such expenditures may adversely affect the exemption of the interest on the Agency's evidence

of indebtedness from federal income taxes. The deletion of this provision will permit the Agency to exercise its judgement as to whether possible adverse impact on the federal income tax exemption for the Agency's debt instruments will impair the economic viability of its loan programs or of a particular loan. In addition, the Agency may desire in the future to issue taxable debt instruments to provide financing for small businesses. It is, therefore, reasonable and necessary to delete the final sentence of 4 MCAR § 14.021D restricting the issuance of taxable debt instruments to permit the Agency to accomplish its primary purpose of assisting and encouraging the establishment, maintenance and growth of small business within the State.



Kent E. Eklund
Vice Chairman
Small Business Finance Agency